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Strategic Investors Step in to Renewables Financing Void

By Gloria Gonzalez | Mon, 27 September 2010 14:28 | 0

Strategic corporate investors are increasingly taking centre stage in the renewable energy market, as the capital markets remain tough to navigate for technological entrepreneurs, financing experts said.

Banks remain reluctant to finance commercialisation of new clean energy technologies that are often too capital intensive for the venture capital community, creating a financing void known as the “Valley of Death”, said Ethan Zindler, global head of policy analysis for Bloomberg New Energy Finance.

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Venture capital and private equity investment in clean energy is projected at about $10 billion this year, rising from the $7 billion invested last year, but below the $12 billion invested in 2007, he said at a Climate Week NYC event co-sponsored by Bloomberg and the Climate Group.

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“The venture capital community has been very good at driving technological innovation ... and getting it to a point where people believe they’ve got proof of concept,” said Brian Bolster, managing director of clean-tech investment banking for Goldman Sachs. “Then it comes time to write about a $500 million to a $1 billion check to bring that online. That is where we run into huge problems because the debt is rarely available.”

Enter strategic investors in the technology, industrials or natural resources sectors such as BP or Total, who see the clean energy sector as an area of growth, Bolster said. “We’ve started to see strategics come into the mix,” he said. “They’re uniquely equipped to step into this fray.”

One financing approach will be to sell to well-capitalised companies looking for strategic opportunities, Jeff McDermott, founder and managing partner of Greentech Capital Advisors said, citing French energy and mining firm Areva’s February 2010 purchase of US-based solar company Ausra as an example.

Ausra was looking to scale up to build a $500 million to $1 billion solar thermal plant, which the company realised did not make sense in this capital environment, said McDermott, who was involved in the transaction. But Areva has the global presence, the pristine balance sheet and plenty of capital to deploy this technology and get the first, early-stage plants built ahead of a global rollout, McDermott said. For Areva, the transaction was part of its strategic objective to be the global leader in concentrated solar power.

But innovative public-private partnerships will continue to be critical in financing and deploying clean energy technologies, the panellists said.

McDermott suggested a financing mechanism modelled after the Obama administration’s Race to the Top initiative, which provides competitive grants to encourage and reward US states creating the conditions for education innovation and reform.

The Department of Energy (DOE) could create a similar programme for clean energy grants, which has the dual benefit of getting the department out of the business of picking winners and losers, and allows capital to flow to the lowest-cost renewable energy projects, an idea that his fellow panellists agreed has merit.

DOE staffers “are bright, driven, hard-working people, but it’s hard to allocate capital”, McDermott said.

“Let the market do that, but set in place some standards that capital and companies can meet.”

By. Gloria Gonzalez

Source: Environmental-Finance

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Gasoline	2.8486	-0.0229	-0.80%
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Gold	1385.5	+2.5	+0.18%

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